



**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Financial Statements

June 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

and

OMB Circular A-133 Reports

Year ended June 30, 2004

# UNIVERSITY OF DENVER (COLORADO SEMINARY)

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## Independent Auditors' Report

The Board of Trustees  
University of Denver (Colorado Seminary):

We have audited the accompanying statements of financial position of the University of Denver (Colorado Seminary) (the University) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2004, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or an compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

October 1, 2004

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Financial Position

June 30, 2004

<b>Assets</b>	<b>Operations</b>	<b>Plant</b>	<b>Long-term investment</b>	<b>Total</b>
Cash and cash equivalents	\$ 32,831,379	11,557,930	—	44,389,309
Short-term investments	47,759,643	1,409,763	—	49,169,406
Accounts receivable, less allowance of \$1,617,037	16,081,072	—	25,412	16,106,484
Pledges receivable, net	875,424	18,527,928	2,165,573	21,568,925
Inventories, prepaid expenses, and other assets	3,485,794	19,521	25,000	3,530,315
Long-term investments	—	—	196,676,107	196,676,107
Loans to students, less allowance of \$900,000	—	—	19,262,626	19,262,626
Deposits with trustees	—	1,927,426	—	1,927,426
Property, plant, and equipment, net	—	400,118,784	—	400,118,784
Total assets	<u>\$ 101,033,312</u>	<u>433,561,352</u>	<u>218,154,718</u>	<u>752,749,382</u>
<b>Liabilities and Net Assets</b>				
Accounts payable and accrued liabilities	\$ 49,131,524	3,962,659	340,000	53,434,183
Other liabilities	—	698,475	1,879,065	2,577,540
Annuity obligations	—	—	7,415,980	7,415,980
Long-term debt	—	117,555,000	—	117,555,000
U.S. Government grants refundable	—	—	16,367,241	16,367,241
Total liabilities	<u>49,131,524</u>	<u>122,216,134</u>	<u>26,002,286</u>	<u>197,349,944</u>
Net assets:				
Unrestricted:				
Available for operations	401,902	—	—	401,902
Designated student loans	—	—	1,846,797	1,846,797
Designated gain sharing	32,742,673	—	—	32,742,673
Designated gifts and endowment income	—	—	92,862,845	92,862,845
Designated plant	—	288,839,442	—	288,839,442
Total unrestricted net assets	<u>33,144,575</u>	<u>288,839,442</u>	<u>94,709,642</u>	<u>416,693,659</u>
Temporarily restricted:				
Gifts and endowment income for specific purposes	18,757,213	—	—	18,757,213
Plant	—	22,505,776	—	22,505,776
Annuity life income	—	—	5,262,695	5,262,695
Total temporarily restricted net assets	<u>18,757,213</u>	<u>22,505,776</u>	<u>5,262,695</u>	<u>46,525,684</u>
Permanently restricted:				
Endowment	—	—	84,978,947	84,978,947
Annuity life income	—	—	5,373,107	5,373,107
Student loans	—	—	1,828,041	1,828,041
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>92,180,095</u>	<u>92,180,095</u>
Total net assets	<u>51,901,788</u>	<u>311,345,218</u>	<u>192,152,432</u>	<u>555,399,438</u>
Commitments and contingencies (notes 7, 11, and 13)				
Total liabilities and net assets	<u>\$ 101,033,312</u>	<u>433,561,352</u>	<u>218,154,718</u>	<u>752,749,382</u>

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Financial Position

June 30, 2003

<b>Assets</b>	<b>Operations</b>	<b>Plant</b>	<b>Long-term investment</b>	<b>Total</b>
Cash and cash equivalents	\$ 27,772,414	12,628,006	3,431,254	43,831,674
Short-term investments	43,448,439	905,946	—	44,354,385
Accounts receivable, less allowance of \$1,757,362	17,130,734	—	31,154	17,161,888
Pledges receivable, net	883,671	9,963,277	2,069,912	12,916,860
Inventories, prepaid expenses, and other assets	2,911,030	373,448	25,000	3,309,478
Long-term investments	—	—	173,939,257	173,939,257
Loans to students, less allowance of \$900,000	—	—	15,262,388	15,262,388
Deposits with trustees	—	4,270,458	—	4,270,458
Property, plant, and equipment, net	—	397,302,431	—	397,302,431
Total assets	<u>\$ 92,146,288</u>	<u>425,443,566</u>	<u>194,758,965</u>	<u>712,348,819</u>
<b>Liabilities and Net Assets</b>				
Accounts payable and accrued liabilities	\$ 44,044,455	6,189,004	—	50,233,459
Other liabilities	—	784,193	940,659	1,724,852
Annuity obligations	—	—	7,262,304	7,262,304
Long-term debt	—	141,185,000	—	141,185,000
U.S. Government grants refundable	—	—	16,093,715	16,093,715
Total liabilities	<u>44,044,455</u>	<u>148,158,197</u>	<u>24,296,678</u>	<u>216,499,330</u>
Net assets:				
Unrestricted:				
Available for operations	168,703	—	—	168,703
Designated student loans	—	—	1,816,406	1,816,406
Designated gain sharing	29,988,537	—	—	29,988,537
Designated gifts and endowment income	—	—	78,069,812	78,069,812
Designated plant	—	266,961,715	—	266,961,715
Total unrestricted net assets	<u>30,157,240</u>	<u>266,961,715</u>	<u>79,886,218</u>	<u>377,005,173</u>
Temporarily restricted:				
Gifts and endowment income for specific purposes	17,944,593	—	—	17,944,593
Plant	—	10,323,654	—	10,323,654
Annuity life income	—	—	4,237,224	4,237,224
Total temporarily restricted net assets	<u>17,944,593</u>	<u>10,323,654</u>	<u>4,237,224</u>	<u>32,505,471</u>
Permanently restricted:				
Endowment	—	—	79,591,060	79,591,060
Annuity life income	—	—	4,879,271	4,879,271
Student loans	—	—	1,868,514	1,868,514
Total permanently restricted net assets	<u>—</u>	<u>—</u>	<u>86,338,845</u>	<u>86,338,845</u>
Total net assets	<u>48,101,833</u>	<u>277,285,369</u>	<u>170,462,287</u>	<u>495,849,489</u>
Commitments and contingencies (notes 7, 11, and 13)				
Total liabilities and net assets	<u>\$ 92,146,288</u>	<u>425,443,566</u>	<u>194,758,965</u>	<u>712,348,819</u>

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Activities  
Year ended June 30, 2004

	<u>Operations</u>	<u>Designated unrestricted</u>	<u>Total operations</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Changes in unrestricted net assets:						
Revenue and gains:						
Tuition and fees	\$ 202,771,705	—	202,771,705	—	—	202,771,705
Less institutional scholarships	41,291,200	—	41,291,200	—	—	41,291,200
	161,480,505	—	161,480,505	—	—	161,480,505
Less noninstitutional scholarships	7,757,075	—	7,757,075	—	—	7,757,075
Net tuition and fees	153,723,430	—	153,723,430	—	—	153,723,430
Private gifts	1,799,162	—	1,799,162	1,681,220	16,000	3,496,382
Grants and contracts	30,104,252	—	30,104,252	—	—	30,104,252
Endowment income	272,576	—	272,576	911	128,650	402,137
Other investment income	3,772,026	—	3,772,026	114,169	—	3,886,195
Net realized and unrealized gains on endowments	333,549	—	333,549	1,663	13,937,882	14,273,094
Net realized and unrealized gains (losses) on other investments	(573,738)	—	(573,738)	9,197,010	—	8,623,272
Sales and services of educational activities	6,243,635	74,845	6,318,480	—	—	6,318,480
Sales and services of auxiliary enterprise	34,017,629	1,766	34,019,395	—	—	34,019,395
Other sources	4,017,097	431,036	4,448,133	2,920,139	—	7,368,272
Total unrestricted revenue and gains	233,709,618	507,647	234,217,265	13,915,112	14,082,532	262,214,909
Net assets released from restrictions	16,470,637	—	16,470,637	6,255,740	—	22,726,377
Total unrestricted revenue, gains, and other support	250,180,255	507,647	250,687,902	20,170,852	14,082,532	284,941,286
Expenses:						
Educational and general:						
Instruction	79,430,460	534,753	79,965,213	7,804,113	—	87,769,326
Research	20,668,806	485,144	21,153,950	665,183	—	21,819,133
Public service	4,376,552	116	4,376,668	41,799	—	4,418,467
Academic support	34,922,422	1,489,159	36,411,581	1,077,327	—	37,488,908
Student services	11,821,809	30,977	11,852,786	1,197,024	—	13,049,810
Institutional support	30,300,120	335,950	30,636,070	2,226,071	87,535	32,949,676
Total educational and general expenses	181,520,169	2,876,099	184,396,268	13,011,517	87,535	197,495,320
Auxiliary enterprises	39,898,856	130,527	40,029,383	7,728,097	—	47,757,480
Total expenses	221,419,025	3,006,626	224,425,651	20,739,614	87,535	245,252,800
Transfers among unrestricted net assets	28,528,031	(5,253,115)	23,274,916	(22,446,489)	(828,427)	—
Total expenses and transfers	249,947,056	(2,246,489)	247,700,567	(1,706,875)	(740,892)	245,252,800
Increase in unrestricted net assets	233,199	2,754,136	2,987,335	21,877,727	14,823,424	39,688,486
Changes in temporarily restricted net assets:						
Private gifts	10,631,838	—	10,631,838	18,450,797	273,377	29,356,012
Endowment income	2,913,565	—	2,913,565	—	—	2,913,565
Other investment income	36,962	—	36,962	28,389	—	65,351
Net realized and unrealized gains on endowments	4,066,748	—	4,066,748	—	—	4,066,748
Net realized and unrealized losses on other investments	(214,758)	—	(214,758)	(38,347)	—	(253,105)
Net assets released from restrictions	(16,470,637)	—	(16,470,637)	(6,255,740)	—	(22,726,377)
Stipulation changed by donor	(151,098)	—	(151,098)	(2,977)	(53,656)	(207,731)
Actuarial adjustments on annuity obligations	—	—	—	—	805,750	805,750
Increase in temporarily restricted net assets	812,620	—	812,620	12,182,122	1,025,471	14,020,213
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	4,967,940	4,967,940
Net realized and unrealized losses on other investments	—	—	—	—	(40,724)	(40,724)
Stipulation changed by donor	—	—	—	—	207,731	207,731
Actuarial adjustments on annuity obligations	—	—	—	—	706,303	706,303
Increase in permanently restricted net assets	—	—	—	—	5,841,250	5,841,250
Change in net assets	1,045,819	2,754,136	3,799,955	34,059,849	21,690,145	59,549,949
Net assets at beginning of year	18,113,296	29,988,537	48,101,833	277,285,369	170,462,287	495,849,489
Net assets at end of year	\$ 19,159,115	32,742,673	51,901,788	311,345,218	192,152,432	555,399,438

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statement of Activities

Year ended June 30, 2003

	<u>Operations</u>	<u>Designated unrestricted</u>	<u>Total operations</u>	<u>Plant</u>	<u>Long-term investment</u>	<u>Total</u>
Changes in unrestricted net assets:						
Revenue and gains:						
Tuition and fees	\$ 184,399,811	—	184,399,811	—	—	184,399,811
Less institutional scholarships	36,368,509	—	36,368,509	—	—	36,368,509
	<u>148,031,302</u>	<u>—</u>	<u>148,031,302</u>	<u>—</u>	<u>—</u>	<u>148,031,302</u>
Less noninstitutional scholarships	7,707,859	—	7,707,859	—	—	7,707,859
Net tuition and fees	140,323,443	—	140,323,443	—	—	140,323,443
Private gifts	1,318,319	—	1,318,319	5,699,346	117,905	7,135,570
Grants and contracts	27,523,316	—	27,523,316	—	—	27,523,316
Endowment income	281,981	—	281,981	1,489	141,816	425,286
Other investment income	4,000,084	—	4,000,084	782,373	—	4,782,457
Net realized and unrealized gains on endowments	374,977	—	374,977	1,916	399,722	776,615
Net realized and unrealized gains on other investments	119,084	—	119,084	399,479	—	518,563
Sales and services of educational activities	5,266,582	29,818	5,296,400	—	—	5,296,400
Sales and services of auxiliary enterprise	32,641,590	—	32,641,590	—	—	32,641,590
Other sources	3,470,053	67,479	3,537,532	458,990	—	3,996,522
Total unrestricted revenue and gains	215,319,429	97,297	215,416,726	7,343,593	659,443	223,419,762
Net assets released from restrictions	26,554,390	—	26,554,390	9,615,815	907,456	37,077,661
Total unrestricted revenue, gains, and other support	241,873,819	97,297	241,971,116	16,959,408	1,566,899	260,497,423
Expenses:						
Educational and general:						
Instruction	73,940,851	447,435	74,388,286	6,501,417	—	80,889,703
Research	16,300,028	347,644	16,647,672	520,070	—	17,167,742
Public service	4,838,119	—	4,838,119	42,784	—	4,880,903
Academic support	32,324,728	1,119,928	33,444,656	1,463,922	—	34,908,578
Student services	10,560,560	16,510	10,577,070	972,030	—	11,549,100
Institutional support	28,457,924	333,318	28,791,242	2,475,293	62,442	31,328,977
Total educational and general expenses	166,422,210	2,264,835	168,687,045	11,975,516	62,442	180,725,003
Auxiliary enterprises	39,079,244	30,886	39,110,130	7,416,636	—	46,526,766
Total expenses	205,501,454	2,295,721	207,797,175	19,392,152	62,442	227,251,769
Transfers among unrestricted net assets	38,090,209	(7,299,329)	30,790,880	(22,768,420)	(8,022,460)	—
Total expenses and transfers	243,591,663	(5,003,608)	238,588,055	(3,376,268)	(7,960,018)	227,251,769
Increase (decrease) in unrestricted net assets	(1,717,844)	5,100,905	3,383,061	20,335,676	9,526,917	33,245,654
Changes in temporarily restricted net assets:						
Private gifts	20,461,715	—	20,461,715	5,651,019	480,574	26,593,308
Endowment income	2,774,885	—	2,774,885	—	—	2,774,885
Other investment income	38,018	—	38,018	413,416	—	451,434
Net realized and unrealized gains on endowments	3,946,174	—	3,946,174	—	—	3,946,174
Net realized and unrealized gains (losses) on other investments	289,323	—	289,323	(3,351)	—	285,972
Net assets released from restrictions	(26,554,390)	—	(26,554,390)	(9,615,815)	(907,456)	(37,077,661)
Stipulation changed by donor	(719,792)	—	(719,792)	719,376	907,456	907,040
Actuarial adjustments on annuity obligations	—	—	—	—	319,740	319,740
Increase (decrease) in temporarily restricted net assets	235,933	—	235,933	(2,835,355)	800,314	(1,799,108)
Changes in permanently restricted net assets:						
Private gifts	—	—	—	—	3,150,494	3,150,494
Net realized and unrealized gains on other investments	—	—	—	—	18,291	18,291
Stipulation changed by donor	—	—	—	—	(907,040)	(907,040)
Actuarial adjustments on annuity obligations	—	—	—	—	(114,215)	(114,215)
Increase in permanently restricted net assets	—	—	—	—	2,147,530	2,147,530
Change in net assets	(1,481,911)	5,100,905	3,618,994	17,500,321	12,474,761	33,594,076
Net assets at beginning of year	19,595,207	24,887,632	44,482,839	259,785,048	157,987,526	462,255,413
Net assets at end of year	\$ 18,113,296	29,988,537	48,101,833	277,285,369	170,462,287	495,849,489

See accompanying notes to financial statements.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Statements of Cash Flows

Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 59,549,949	33,594,076
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	10,676,283	9,374,498
Decrease in accounts receivable	1,055,404	8,674,061
Decrease (increase) in pledges receivable	(8,652,065)	3,293,735
Increase in inventories, prepaid expenses, and other assets	(220,837)	(136,587)
Increase in accounts payable, accrued liabilities, and other liabilities	3,799,130	6,539,374
Actuarial adjustment for annuity obligations	153,676	(418,192)
Contributions of real and personal property	(4,488,856)	(2,831,574)
Contributions restricted for long-term investment	(3,491,970)	(2,806,720)
Interest and dividends restricted for long-term investment	(128,650)	(141,816)
Net realized and unrealized gains on investments	(16,573,450)	(5,545,615)
Net cash provided by operating activities	<u>41,678,614</u>	<u>49,595,240</u>
Cash flows from investing activities:		
Proceeds from sale and maturity of investments	103,723,124	85,808,019
Purchases of investments	(110,212,689)	(91,404,844)
Purchases of property, plant, and equipment	(26,489,764)	(62,882,557)
Proceeds from disposal of property, plant, and equipment	12,997,128	269,676
Disbursements for Perkins and University loans to students	(8,748,148)	(3,834,374)
Repayment of Perkins and University loans to students	4,747,910	4,535,117
Decrease in deposits with bond trustees, net	2,343,032	36,274,709
Net cash used by investing activities	<u>(21,639,407)</u>	<u>(31,234,254)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term investment	3,491,970	2,806,720
Interest and dividends restricted for long-term investment	128,650	141,816
Payments of notes payable	(85,718)	(177,655)
Proceeds from notes receivable	340,000	784,193
Payments of bonds payable	(23,630,000)	(4,860,000)
Increase in refundable government loan funds, net	273,526	509,838
Net cash used by financing activities	<u>(19,481,572)</u>	<u>(795,088)</u>
Net increase in cash and cash equivalents	557,635	17,565,898
Cash and cash equivalents at beginning of year	<u>43,831,674</u>	<u>26,265,776</u>
Cash and cash equivalents at end of year	\$ <u><u>44,389,309</u></u>	\$ <u><u>43,831,674</u></u>

Interest paid is discussed in note 5.

See accompanying notes to financial statements.

# UNIVERSITY OF DENVER (COLORADO SEMINARY)

## Notes to Financial Statements

June 30, 2004 and 2003

### (1) Summary of Significant Accounting Policies

#### (a) *Nature of the Entity*

The University of Denver (Colorado Seminary) (the University) is an accredited, independent, coeducational institution located in Denver, Colorado. The University was founded as Colorado Seminary in 1864. In 1880, following the reorganization of the Seminary, the University of Denver was established as the degree granting body. The University offers both undergraduate and graduate programs. Enrollment currently stands at approximately 10,100 students, of which approximately 4,500 are undergraduates. The University is primarily supported by tuition and fees, private gifts and grants, and contracts.

#### (b) *Eleanor Roosevelt Institute*

The University entered into an agreement to acquire by gift certain assets of the Eleanor Roosevelt Institute (ERI) in May 2003. The agreement allowed for making all ERI personnel employees of the University, and acquiring all physical assets including the ownership of the building at 1899 S. Gaylord, Denver, CO. The University has recorded this acquisition of assets as gift revenue of \$5.6 million.

As part of the acquisition, the University also accepted the terms of two recoverable grants from Bonfils-Stanton Foundation and Boettcher Foundation totaling \$800,000 made to ERI for the purpose of paying off the mortgage on the ERI building. ERI had secured pledges for this purpose and must pay back the recoverable grants with any pledge proceeds. Should the University terminate the operations of ERI or sell the building before 2013, Bonfils-Stanton and Boettcher Foundations must be reimbursed by the University for any outstanding balance on the recoverable grant.

#### (c) *Basis of Presentation*

The financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The University maintains its accounts in accordance with the principles of fund accounting. Resources for various purposes are classified into funds that are in accordance with activities or objectives specified by donors. Separate accounts are maintained for each fund. For financial reporting purposes, resources are classified into net asset categories according to the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

***Unrestricted net assets*** – Net assets that are generally not subject to donor-imposed stipulations. Uses of certain unrestricted net assets are committed as matching funds under student loan programs of the federal government. Unrestricted net assets are designated for specific purposes by the University.

***Temporarily restricted net assets*** – Net assets subject to donor-imposed stipulations that may or will be met either with actions of the University and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

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***Permanently restricted net assets*** – Net assets subject to donor-imposed stipulations that are maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for specific or general purposes.

Additionally, the University has classified activities and balances within the above described net asset classes representing the level of operations and also the liquidity and nature of assets. These classifications (columns) are described as follows:

***Operations*** – Activities which define the University’s “level of operations,” relating to its educational activities and auxiliary enterprises. All assets, excluding pledges receivable, inventories, prepaid expenses, and other assets, are current in nature. Accounts payable and accrued liabilities, other than accumulated postretirement benefit obligations (see note 7), are near maturity. Other liabilities are long-term in nature. Balances and activities are either unrestricted or have been released from restrictions.

***Designated unrestricted*** – The University’s board of trustees has elected to transfer operation funds for specific future operating purposes to a designated classification. Expenses incurred for the stated purposes are charged to expense accounts. The board may also elect to return any balances of designated funds to operations.

***Plant*** – Activities include depreciation on equipment and buildings, interest expense on long-term debt and receipt of gifts which include donor-imposed restrictions for the acquisitions of physical properties. All assets are limited to long-term purposes.

***Long-term investment*** – Endowment and loan activities and balances are grouped in this column. All assets are limited to long-term purposes.

The board retains the authority to designate surpluses for funding of designated operations, plant, and long-term investment activities in subsequent years. Such designations of activities are reported as transfers among unrestricted net assets in the statements of activities.

**(d) *Cash and Cash Equivalents***

The University controls cash for all activities through one operating account. The cash or deficit balances represent cash positions and temporary interfund borrowings for the respective funds. Certificates of deposits, short-term securities, and deposits with trustees are stated at fair value.

The University considers all liquid investments with original maturities of three months or less to be cash equivalents.

**(e) *Accounts Receivable***

Accounts receivable consist primarily of amounts due from students for tuition, room, board and fees, and amounts due to the University under federal, state, and private grants and contracts.

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Notes to Financial Statements

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**(f) Investments**

Investments received by gift, including investments in real estate, are recorded at estimated fair value at the date of the gift and are subsequently adjusted for changes in fair value thereafter. Purchased investments are carried at fair value. Realized and unrealized gains and losses are reported in the appropriate net asset classification.

**(g) Pledges Receivable**

Unconditional promises to give are recorded when pledges are made by the respective donors at their estimated present value. An allowance for uncollectibility is provided based on review of individually significant pledges and an estimated rate of uncollectibility. All contributions are available for unrestricted use unless specifically restricted by the donor.

Donor restricted contributions whose restrictions are met in the same reporting period are initially reported as restricted revenue, which increase temporarily restricted net assets, then reclassified (or released from restrictions), simultaneously increasing unrestricted net assets and decreasing temporarily restricted net assets. Conditional promises to give are recognized as revenue when the conditions on which they depend are substantially met.

Net assets released from restrictions are reported in the statements of activities when the University has met the donor restrictions. Assets released from restrictions in the current year are for scholarships, plant acquisitions, and departmental operations (see note 6).

**(h) Inventories**

Inventories, which consist mainly of bookstore merchandise and operating supplies, are valued at the lower of cost or fair value using the first-in, first-out (FIFO) method.

**(i) Deposits With Trustees**

Deposits with trustees represents cash and U.S. government securities that have been set aside to meet the reserve requirements of the University's long-term debt for issuances 1993 and 1996 and includes unspent funds from the Series 2000 acquisition fund. The bond reserve requirements for all other issuances are funded by a reserve fund insurance policy.

**(j) Property, Plant, and Equipment**

The University capitalizes all assets valued at \$5,000 or greater with estimated useful lives greater than one year.

Property, plant, and equipment are carried at cost at the date of acquisition or fair value at the date of donation in the case of gifts. Books and bound periodicals in the library are valued at \$3.00 per volume. Depreciation on property, plant, and equipment, except library books, is calculated on the straight-line method over the estimated useful lives of the assets which range from 3 to 15 years for equipment and 10 to 80 years for buildings and improvements.

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2004 and 2003

The University reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**(k) *Deferred Revenue***

Summer school tuition, fee revenue, and related expenses are deferred at June 30, 2004 and 2003 and recorded as revenue and expenses in the succeeding fiscal year. Deferred revenue is included in other liabilities on the accompanying statements of financial position.

**(l) *Compensated Absences***

The University's employees earn paid vacation each month based upon their years of service with the University. Vacation time accrues and vests proportionately between July 1 and June 30 of the current year and employees can carry a maximum of 22 days to the next fiscal year. An accrual has been made for earned vacation time and is included in accounts payable and accrued liabilities on the accompanying statements of financial position.

The University has a sick leave plan covering substantially all employees. The University provides employees approximately eight hours of paid sick leave per month depending on employment status. The University's employees' accumulated unused sick leave is carried over to the next year and is cumulative. Unused sick pay is forfeited by employees when they cease to be employed by the University. Therefore, no amount is accrued for sick leave.

Faculty members do not accrue vacation or sick leave.

**(m) *Annuity Obligations***

Annuity obligations represent the actuarially determined present value of future payments due to beneficiaries under split-interest agreements, primarily charitable remainder trusts.

**(n) *Taxes***

The University is recognized as an organization generally exempt from income taxes under Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3). However, income generated from activities unrelated to the University's exempt purpose is subject to tax under Section 511 of the Code.

**(o) *Fair Value of Financial Instruments***

The fair value of the University's financial instruments are determined as follows:

***Cash and cash equivalents*** – fair value is estimated to be the same as carrying (book) value because of their short maturities.

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**Short-term and long-term investments** – fair value of cash equivalents and U.S. government securities is estimated to be the same as carrying (book) value because of their short maturities; fair value of mutual funds, stocks, and bonds is the market value based on quoted market prices, fair value of notes receivable cannot be determined without incurring excessive costs. Both short and long-term investments are carried at fair value.

**Accounts receivable** – fair value is estimated to be the same as carrying (book) value because of their short maturities.

**Pledges receivable** – fair value is determined by computing the present value of future cash flows discounted at the prevailing interest rate as of the period in which the agreement was received. Carrying value of pledges receivable approximates fair value.

**Loans to students** – fair value cannot be determined without incurring excessive costs. Repayment terms for University loans average less than one year and on average carry a 7% interest rate. The Perkins program has a maximum repayment period of 10 years and carries an average interest rate of 5%.

**Deposits with trustees** – fair value is estimated to be the same as carrying (book) value because of the short maturities of the U.S. government securities held by the trustees.

**Accounts payable and accrued liabilities** – fair value is estimated to be the same as carrying (book) value due to the short maturities of accounts payable; included in accrued liabilities is the present value of future obligations which are adjusted annually – this carrying value approximates fair value.

**Annuity obligations** – fair value is determined by computing the present value of the University's obligation to pay beneficiaries based on the beneficiaries' life expectancies from actuarial tables published by the Internal Revenue Service, using the prevailing interest rate as of the date of each agreement. Annuity obligations are adjusted annually for these factors and carried at fair value.

**Long-term debt** – fair value is determined by computing the present value of future payments discounted at the prevailing interest rate for comparable debt instruments at year-end.

**(p) Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**(q) Reclassifications**

Certain amounts have been reclassified in the 2003 financial statements to conform to the 2004 presentation.

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Notes to Financial Statements

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**(2) Short-Term and Long-Term Investments**

Investments at June 30 consist of the following:

	<b>Fair value</b>	
	<b>2004</b>	<b>2003</b>
Operations:		
U.S. government securities	\$ 34,057,919	42,580,447
Stocks	10,412,455	562,358
Real estate	52,748	52,748
Other	3,236,521	252,886
	<u>47,759,643</u>	<u>43,448,439</u>
Plant:		
Stocks and bonds	1,230,580	101,286
Real estate	179,169	179,169
Other	14	625,491
	<u>1,409,763</u>	<u>905,946</u>
Long-term investment:		
Short-term investments	8,315,938	6,197,515
U.S. government securities	295,593	73,826
Stocks	120,869,585	90,900,019
Bonds	21,391,068	39,413,559
Real estate	19,673,348	13,043,282
Beneficial trust interest	10,363,718	9,691,531
Equity mutual funds	10,982,692	9,505,116
Fixed income mutual funds	3,990,958	4,217,222
Notes receivable	793,207	897,187
	<u>196,676,107</u>	<u>173,939,257</u>
Total	<u>\$ 245,845,513</u>	<u>218,293,642</u>

The changes in unrealized appreciation (depreciation) on endowment investments and all other investments for the year ended June 30 are comprised of the following:

	<b>2004</b>		<b>2003</b>	
	<b>Endowment</b>	<b>Total</b>	<b>Endowment</b>	<b>Total</b>
Net unrealized appreciation in fair value at beginning of year	\$ 10,089,021	10,735,075	10,205,545	9,570,805
Current year unrealized appreciation (depreciation)	<u>15,726,089</u>	<u>16,942,963</u>	<u>(116,524)</u>	<u>1,164,270</u>
Net unrealized appreciation in fair value at end of year	<u>\$ 25,815,110</u>	<u>27,678,038</u>	<u>10,089,021</u>	<u>10,735,075</u>

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June 30, 2004 and 2003

During the years ended June 30, 2004 and 2003, the University paid approximately \$171,000 and \$400,000, respectively, in management and custodian fees which were netted against endowment income and other investment income on the accompanying statements of activities. All endowments established by various donors over the years are accounted for separately in the accounting records of the University to ensure that the purposes for which the endowments were initially created are carried out in perpetuity. For investment purposes, to maximize total investment return and administrative efficiency, the University commingles certain assets in an investment pool.

Individual endowments own shares in the pool, the value per share being determined by the pool's aggregate fair value and the number of shares outstanding at the time contributions are made. The pool is valued on a quarterly basis for this purpose. At June 30, 2004, the pool had 39,648,692 shares outstanding, with a fair value of approximately \$4.07 per share or \$161,416,061. The University has adopted a spending policy whereby the board of trustees has authorized a stipulated percent of the fair value of endowments participating in the investment pool to be spent for the purposes of the donors. The distribution for spending in 2004 was \$0.26 per share, of which \$0.07 represented income yield. The remaining \$0.19 represented spending of unrealized gains. At June 30, 2003, the pool had 37,888,176 shares outstanding, with a fair value of approximately \$3.78 per share or \$143,125,798. The distribution for spending in 2003 was \$0.27 per share, of which \$0.07 represented income yield. The remaining \$0.20 represented spending of unrealized gains.

The investment pool consist of 541 individual endowments at June 30, 2004. Of these endowments, 35 are considered to be 'under water' as the fair value of the underlying investments is less than the original gift value. At June 30, 2004, the fair value of the underlying investments related to these 35 endowments totaled approximately \$11,602,000 while the original gift value was approximately \$12,607,000.

The University has the following split interest agreements which are included in long-term investments at June 30, 2004 and 2003:

	<b>2004</b>		
	<b>Number of agreements</b>	<b>Net assets classification</b>	
		<b>Temporary</b>	<b>Permanently</b>
Perpetual trusts held by third party	5	\$ —	8,017,783
Charitable Remainder Trusts:			
University named trustee	23	5,928,877	5,840,456
Third party named trustee	10	1,356,671	1,783,801
Charitable Annuity Agreements	90	2,860,773	1,321,345
	<u>128</u>	<u>\$ 10,146,321</u>	<u>16,963,385</u>

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	Number of agreements	2003	
		Net assets classification	
		Temporary	Permanently
Perpetual trusts held by third party	5	\$ —	7,496,711
Charitable Remainder Trusts:			
University named trustee	24	5,259,796	5,109,376
Third party named trustee	9	1,231,741	1,813,443
Charitable Annuity Agreements	84	2,254,538	1,482,182
Pooled Life Income Fund	1	148,213	—
	<u>123</u>	<u>\$ 8,894,288</u>	<u>15,901,712</u>

The University is the beneficiary of certain perpetual trusts held by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenue at the date the trusts are established. Distributions from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts as gains and losses on the endowment investments.

The Charitable Remainder Trusts, Charitable Annuity Agreements, and Pooled Life Income Fund are split interest agreements that are either held and administered by the University or by others. In the period when the agreement is established, the University recognizes an asset at fair value, a liability to the beneficiary for the estimated future benefits to be distributed and contribution revenue for the difference. Annual adjustments are made to the liability for the estimated future benefits to be distributed due to changes in the actuarial assumptions and the discount rate, where applicable, over the term of the agreement.

**(3) Pledges Receivable**

Pledges receivable are summarized as follows at June 30:

	2004	2003
Unconditional promises expected to be collected in:		
Less than one year	\$ 12,209,022	5,135,926
One to five years	13,365,471	9,606,262
Six to ten years	—	650,000
	<u>25,574,493</u>	<u>15,392,188</u>
Less allowance for uncollectible pledges	(2,557,449)	(1,539,220)
Less present value discount (2.7% – 4.5%)	<u>(1,448,119)</u>	<u>(936,108)</u>
Net pledges receivable	<u>\$ 21,568,925</u>	<u>12,916,860</u>

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**(4) Property, Plant, and Equipment**

Property, plant, and equipment at June 30 consists of the following:

	<u>2004</u>	<u>2003</u>
Land	\$ 7,955,866	8,415,295
Land improvements	13,792,109	9,558,101
Buildings and improvements	388,903,515	343,536,321
Equipment	51,424,460	47,381,284
Library books	7,718,659	7,624,015
Construction in progress	8,876,792	58,669,446
	<u>478,671,401</u>	<u>475,184,462</u>
Less accumulated depreciation	<u>(78,552,617)</u>	<u>(77,882,031)</u>
	<u>\$ 400,118,784</u>	<u>397,302,431</u>

The University had approximately \$10,676,000 and \$9,374,000 of depreciation expense for the years ended June 30, 2004 and 2003, respectively, which was reported within all functions in the accompanying statements of activities.

The University capitalizes interest cost on major construction projects. The amount of interest capitalized was approximately \$0 and \$1,091,000 for the years ended June 30, 2004 and 2003, respectively.

**(5) Long-Term Debt**

Bonds payable at June 30 consist of the following:

	<u>2004</u>	<u>2003</u>
Colorado Educational and Cultural Facilities Authority Revenue Bonds, Series 2001 A	\$ 27,000,000	27,000,000
Colorado Educational and Cultural Facilities Authority Variable Rate Demand Revenue Bonds, Series 2001 B	20,385,000	20,710,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 2000	46,490,000	47,800,000
Colorado Postsecondary Educational and Cultural Facilities Authority Revenue Bonds, Series 1999	3,235,000	3,810,000
Colorado Postsecondary Educational Facilities Authority Improvement and Refunding Revenue Bonds, Series 1997	18,540,000	18,810,000
Colorado Postsecondary Educational Facilities Authority Revenue Bonds, Series 1996	1,905,000	2,345,000
Colorado Postsecondary Educational Facilities Authority Refunding Revenue Bonds, Series 1993	—	20,710,000
	<u>\$ 117,555,000</u>	<u>141,185,000</u>

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### Notes to Financial Statements

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The University had approximately \$6,064,222 and \$8,041,000 of interest expense for the years ended June 30, 2004 and 2003, respectively, which was reported in various functions under plant in the accompanying statements of activities. Interest of approximately \$4,114,000 and \$5,629,000 was paid in cash during the years ended June 30, 2004 and 2003, respectively. The fair value of bonds payable was approximately \$121,719,000 and \$150,375,000 at June 30, 2004 and 2003, respectively.

**(a) Issuance of Series 2001 B Bonds**

In November 2001, the Colorado Educational and Cultural Facilities Authority issued \$23,000,000 of University of Denver Variable Rate Demand Revenue Bonds, Series 2001 B. The proceeds from the sale of the 2001 B bonds were used to (1) finance the construction of a law school, (2) obtain a municipal bond insurance policy for the Bonds, (3) obtain a reserve fund surety bond for the Bonds, (4) obtain a liquidity facility for the Bonds, and (5) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for a mandatory annual sinking fund redemption payments of \$500,000 in 2004 and increasing to \$1,300,000 in 2031. Interest is payable depending on the interest rates ranging from weekly to annually on a monthly or semiannual basis. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

**(b) Issuance of Series 2001 A Bonds**

In October 2001, the Colorado Educational and Cultural Facilities Authority issued \$27,000,000 of University of Denver Revenue Bonds, Series 2001 A. The proceeds from the sale of the 2001 A bonds were used to (1) finance the completion of a residence hall and the construction of a law school, (2) obtain municipal bond insurance policy, and (3) obtain a reserve fund surety bond for the Bonds.

The bond agreement provides for a mandatory annual sinking fund redemption payments of \$2,080,000 in 2025 and increasing to \$7,250,000 in 2027. Interest is payable semiannually at the rate of 5%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

**(c) Issuance of 2000 Bonds**

In November 2000, the Colorado Educational and Cultural Facilities Authority issued \$51,395,000 of University of Denver Revenue Bonds, Series 2000. The proceeds from the sale of the 2000 bonds were used to (1) finance a portion of the cost of constructing a new residence hall and a new parking structure on the University's main campus, (2) refinance all of the City and County of Denver Industrial Development Bonds, Series 1991, (3) pay capitalized interest, (4) obtain a Reserve Fund Insurance Policy in an amount equal to the Bond Reserve Requirement, and (5) pay certain of the costs associated with the issuance of the Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$1,125,000 in 2002 and increasing to \$6,445,000 in 2021. Interest is payable semiannually at rates ranging from 5.00% to 5.50%. Payment of principal and interest on the bonds is guaranteed by Ambac Assurance Corporation.

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**(d) Issuance of 1999 Bonds**

In January 1999, the Colorado Postsecondary Educational and Cultural Facilities Authority issued \$5,900,000 of University of Denver Revenue Bonds, Series 1999. The proceeds from the sale of the 1999 bonds were used to (1) finance the costs of a portion of the Daniel L. Ritchie Sports and Recreational Center (the Center), (2) fund a Bond Reserve fund, and (3) pay certain costs associated with the issuance of the Bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$535,000 in 2002 and increasing to \$700,000 in 2009. Interest is payable semiannually at rates ranging from 3.30% to 4.25%. Payment of principal and interest on the bonds is guaranteed by the AMBAC Assurance Corporation.

**(e) Issuance of 1997 Bonds**

In October 1997, the Colorado Postsecondary Educational Facilities Authority issued \$19,755,000 of University of Denver Improvement and Refunding Revenue Bonds, Series 1997. The proceeds from the sale of the 1997 bonds were used to (1) finance the costs of a portion of the Daniel L. Ritchie Sports and Wellness Center and finance a parking facility near the center, (2) refinance the University's obligations with respect to the Colorado Postsecondary Educational Facilities Authority Improvement Revenue Bonds, Series 1992, (3) obtain a Reserve Fund insurance policy in an amount equal to the Bond Reserve requirement, and (4) pay the costs associated with the issuance of the bonds. The \$11,860,000 in refunded bonds were legally defeased and removed from the accounting records of the University. As of June 30, 2004 and 2003, all of the refunded Series 1992 bonds were still outstanding, pending scheduled payment from escrow.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$240,000 in 2002 and increasing to \$4,520,000 in 2018. Interest is payable semiannually at rates ranging from 4.10% to 5.5%. Payment of principal and interest on the bonds is guaranteed by MBIA Insurance Corporation.

**(f) Issuance of 1996 Bonds**

In September 1996, the Colorado Postsecondary Educational Facilities Authority issued \$4,570,000 of University of Denver Revenue Bonds, Series 1996. The proceeds from the sale of the 1996 bonds were used to (1) finance certain energy conservation measures which include a lighting upgrade program and a control system upgrade, (2) finance the expansion of the heating and cooling plant at the University Park Campus, (3) fund a Bond Reserve Fund, and (4) pay the costs associated with the issuance of the bonds.

The bond agreement provides for mandatory annual sinking fund redemption payments of \$40,000 in 2002 and increasing to \$965,000 in 2007. Interest is payable semiannually at rates ranging from 4.65% to 5.75%. Payment of principal and interest on the bonds is guaranteed by the AMBAC Insurance Company.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

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**(g) Issuance of 1993 Bonds and Partial Refunding of 1991 Bonds**

In February 1993, the Colorado Postsecondary Educational Facilities Authority issued \$21,460,000 of University of Denver Refunding Revenue Bonds, Series 1993. The proceeds from the sale of the 1993 bonds were used (1) to refund \$17,880,000 of the University's outstanding City and County of Denver, Colorado Industrial Development Revenue Bonds, Series 1991, (2) to fund a portion of the Bond Reserve Fund in an amount equal to the Bond Reserve Requirement with respect to the 1993 Bonds, and (3) to pay certain costs associated with the issuance of the 1993 Bonds. The \$17,880,000 in refunded bonds were legally defeased and removed from the accounting records of the University. As of June 30, 2004 and 2003, all of the refunded Series 1991 bonds were still outstanding, pending scheduled payment from escrow.

During 2004, the University closed on the real estate contract to sell the western portion of the Park Hill Campus to Johnson & Wales University for approximately \$22 million. All operations, including the College of Law, on the Park Hill Campus were moved to the main campus by August 1, 2003. The sales proceeds were used to pay off the remaining balance of \$20,710,000 of the Series 1993 revenue bonds.

**(h) Aggregate Annual Maturities of Bonds Payable**

At June 30, 2004, the aggregate annual maturities of bonds payable for the five succeeding years are as follows:

2005	\$	3,040,000
2006		3,170,000
2007		3,765,000
2008		3,460,000
2009		3,615,000
Thereafter		<u>100,505,000</u>
	\$	<u><u>117,555,000</u></u>

**(6) Net Assets Released From Restrictions**

The sources of net assets released from temporary restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by donors were as follows:

		<u>2004</u>	<u>2003</u>
Acquisition of buildings and equipment	\$	6,255,740	9,615,815
Scholarships		3,267,145	3,179,996
Instruction, research, academic and departmental support, and other		<u>13,203,492</u>	<u>24,281,850</u>
Total	\$	<u><u>22,726,377</u></u>	<u><u>37,077,661</u></u>

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

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**(7) Retirement Plan and Postretirement Benefits**

Full-time employees, including part-time employees who work at least 20 hours per week for at least six months, of the University are eligible to participate in a contributory tax-deferred annuity retirement plan (the Retirement Plan) under Section 403(b) of the Internal Revenue Code. Administrators, faculty members, and staff-appointed employees are eligible to participate in the Retirement Plan after one year of service. Participating employees may contribute up to 4% of their base salary, limited by the Internal Revenue Code to \$10,500 per employee. The University contributes an amount twice that of the employee up to 8%. Participants have a fully vested interest in the total contributions immediately. Accounts of each employee are invested at the employee's discretion. Under the Retirement Plan, the University contributed approximately \$6,085,000 and \$5,691,000 for the years ended June 30, 2004 and 2003, respectively, which were charged to operating expenses.

The University also sponsors a defined benefit health care plan (the Health Care Plan) that provides postretirement medical benefits to full-time employees who have worked 10 years and attained age 55 while in service with the University if hired prior to January 1, 1992, or full-time employees who have worked 20 years and attained age 55 while in service with the University if hired after December 31, 1991. Participants receive \$55 per month, toward the cost of their postretirement medical costs. At June 30, 2004, the Health Care Plan covered 241 retirees with an additional 2,086 active employees potentially eligible for coverage. At June 30, 2003, the Health Care Plan covered 238 retirees with an additional 2,027 active employees potentially eligible for coverage. The Health Care Plan is noncontributory and was not amended during 2004 or 2003. Under the Health Care Plan, the University contributed approximately \$4,930,000 and \$4,684,000 for the years ended June 30, 2004 and 2003, respectively, which were charged to operating expenses.

The University has elected to amortize the initial transition postretirement benefit obligation of approximately \$1,989,000 over 20 years. The remaining balance was approximately \$895,000 at June 30, 2004.

The following table represents the Health Care Plan's status reconciled with amounts recognized in the University's statements of financial position as accounts payable and other accrued liabilities at June 30:

	<u>2004</u>	<u>2003</u>
Accumulated postretirement benefit obligation (APBO):		
Retirees	\$ 1,346,682	1,370,842
Fully eligible active participants	838,507	906,616
Other active plan participants	214,394	241,860
Total APBO, all unfunded	<u>\$ 2,399,583</u>	<u>2,519,318</u>
Accumulated postretirement benefit obligations	\$ 2,399,583	2,519,318
Unrecognized net gain	337,449	217,864
Unrecognized prior service cost	(106,144)	(117,965)
Unrecognized transition obligation	<u>(895,243)</u>	<u>(994,714)</u>
Accrued postretirement benefit cost	<u>\$ 1,735,645</u>	<u>1,624,503</u>

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2004 and 2003

At June 30, net periodic postretirement benefit cost included the following components:

	<u>2004</u>	<u>2003</u>
Service cost	\$ 17,774	13,385
Interest cost	139,597	147,584
Amortization of transition obligation over 20 years	99,471	99,471
Prior service cost	11,821	22,234
Amortization of unrecognized net gain	—	(25,552)
Net periodic postretirement benefit cost	\$ <u>268,663</u>	<u>257,122</u>

The weighted average discount rate used in determining the accumulated postretirement benefit obligations was 6.25% and 5.75% at June 30, 2004 and 2003, respectively. It is the University's policy to fund the benefit cost with current cash balances.

The estimated benefits expected to be paid in following years are as follows:

2005	\$ 186,500
2006	185,300
2007	185,300
2008	186,900
2009	187,200
2010 – 2014	<u>1,127,200</u>
Total	\$ <u>2,058,400</u>

For the year ended June 30, 2004, all medical premiums were greater than the amount subsidized by the University. Therefore, a health care trend was not used as all retirees receiving the subsidy receive the full \$55.

The measurement date for the Health Care Plan was June 30, 2004.

**(8) Loans to Students**

Student loans made through the Federal Perkins Loan Program (Perkins), constitute substantially all of the student loans outstanding at June 30, 2004 and 2003. New contributions to the Perkins programs are funded 75% by the federal government with the University providing the remaining 25% for fiscal years 2004 and 2003. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for canceled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy.

At June 30, 2004 and 2003, the allowance for possible loan losses of Perkins approximated \$750,000; however, due to federal regulations, no loans of Perkins have been written-off since the inception of Perkins.

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to Financial Statements

June 30, 2004 and 2003

The University has other loan funds obtained primarily through gifts and grants from individuals, corporations, and foundations. At June 30, 2004 and 2003, the allowance for possible loan losses of these funds was \$150,000.

During the years ended June 30, 2004 and 2003, the University made loans directly to students under the Federal Family Education Loan Program totaling approximately \$41.3 million and \$32.7 million, respectively. Prior to year-end the loans were sold without recourse to a third party.

#### **(9) Federal Financial Awards**

The federal government awards the University various monies restricted for student financial aid. The monies are awarded through three federal programs: Federal Pell Grant (Pell), Federal Supplemental Educational Opportunity Grant (SEOG), and Federal College Work Study (CWS). The University considers this financial aid an integral part of its educational and general activities.

Pell grant monies are received by the University on behalf of students who have been identified by the federal government to assist the students in defraying the cost of post-secondary education. The University received and disbursed approximately \$1,555,000 and \$1,374,000 of Pell monies during the years ended June 30, 2004 and 2003, respectively, which are not reported in the accompanying statements of activities.

SEOG provides eligible students a foundation of financial aid to assist them with defraying the cost of post-secondary education. During 2004 and 2003, the University received and disbursed SEOG monies of approximately \$472,000 and \$525,000, respectively, which are reported as changes in unrestricted net assets under operations.

The CWS program provides part-time employment to students who need the earnings to help meet their post-secondary education costs. The program is also intended to broaden the range of worthwhile job opportunities to qualified students. The University received and disbursed approximately \$929,000 and \$1,287,000 of CWS awards during 2004 and 2003, respectively, which are reported as changes in unrestricted net assets under operations. The University provided matching funds of approximately \$452,000 and \$386,000, respectively, during the years ended June 30, 2004 and 2003.

#### **(10) Fundraising Expenses**

The University had fundraising expenses of approximately \$3,910,000 and \$3,550,000 in 2004 and 2003, respectively, which were recognized in institutional support in the accompanying statements of activities.

#### **(11) Off-Balance Sheet Risk**

During the years ended June 30, 2004 and 2003, the University participated in the Federal Direct Student Loan Program (FDSLPL). The FDSLPL allows "one-stop" student access to federal educational loan funds, including the Stafford Loan Program, the Supplemental Loans for Students Program, the PLUS Loan Program, and the Consolidation Loan Program, directly through schools. Such transactions are not reported in the University's statements of activities. During the years ended June 30, 2004 and 2003, the University received approximately \$19,747,000 and \$24,246,000 and disbursed approximately \$19,502,000 and \$23,886,000, respectively, of FDSLPL funds. The difference between the University's receipts and

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to Financial Statements

June 30, 2004 and 2003

disbursements is reported as accounts receivable under operations. The University performs certain administrative functions under FDSL P which, if not performed timely, could result in a liability to the University.

**(12) Transactions With Related Parties**

Included in pledges receivable is the present value of approximately \$12,388,000 and \$5,564,000 as of June 30, 2004 and 2003, respectively, in pledges from related parties.

**(13) Commitments and Contingencies**

At June 30, 2004 and 2003, the University had outstanding commitments totaling approximately \$6,395,000 and \$17,750,000, respectively, for contracts related to various construction projects on campus.

The University participates in a number of federal programs which are subject to financial and compliance audits. The amount of expenses which may be disallowed by the granting agencies cannot be determined at this time, although the University does not expect these amounts, if any, to be material to the financial statements.

The University is a party to a number of matters of litigation. It is the opinion of management, based on the advice of counsel, that the University's liability insurance is sufficient to cover the potential judgments, and that the outcome of the suits will not have a material adverse effect on the financial position or operations of the University.



**KPMG LLP**  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

**Independent Auditors' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

The Board of Trustees  
University of Denver (Colorado Seminary):

We have audited the financial statements of the University of Denver (Colorado Seminary) (the University) as of and for the year ended June 30, 2004, and have issued our report thereon, dated October 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of trustees, University management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 1, 2004



KPMG LLP  
Suite 2700  
707 Seventeenth Street  
Denver, CO 80202

## **Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

The Board of Trustees  
University of Denver (Colorado Seminary):

### **Compliance**

We have audited the compliance of the University of Denver (Colorado Seminary) (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2004. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the University's compliance with those requirements.

As described in item 04-01 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding special tests and provisions related to the return of Title IV funds that are applicable to its Student Financial Aid program. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

### **Internal Control Over Compliance**

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the University's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the board of trustees, University management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 1, 2004

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal granting agency</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
Research and Development Cluster:		
Department of Agriculture:		
Direct Payments	10.200	\$ 37,726
Pass-through Awards	10.558	5,320
Total Department of Agriculture		<u>43,046</u>
Department of Commerce:		
National Oceanic and Atmospheric Administration:		
Direct Payments	11.431	52,513
Direct Payments	11.609	114,115
Total National Oceanic and Atmospheric Administration		<u>166,628</u>
Department of Defense:		
Air Force:		
Direct Payments	12.800	990,328
Pass-through Awards	12.800	76,396
		<u>1,066,724</u>
Army:		
Direct Payments	12.114	459,492
Pass-through Awards	12.114	191,214
		<u>650,706</u>
Direct Payments	12.431	260,701
Navy:		
Direct Payments	12.300	48,193
Pass-through Awards	12.300	137,944
		<u>186,137</u>
Total Department of Defense		<u>2,164,268</u>
Department of Housing and Urban Development:		
Direct Payments	14.169	49,540
Pass-through Awards	14.169	13,958
		<u>63,498</u>
Pass-through Awards	14.218	21,047
Direct Payments	14.511	58,513
Pass-through Awards	14.866	10,341
Total Department of Housing and Urban Development		<u>153,399</u>
Department of the Interior:		
Bureau of Reclamation:		
Direct Payments	15.000	33

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal granting agency</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
Fish and Wildlife:		
Direct Payments	15.617	\$ 55,031
Pass-through Awards	15.617	43,062
		<u>98,093</u>
National Park Service:		
Direct Payments	15.915	523,260
Direct Payments	15.923	26,674
U.S. Geological Service:		
Direct Payments	15.808	272,902
Pass-through Awards	15.808	2,442
		<u>275,344</u>
Total Department of the Interior		<u>923,404</u>
Department of Justice:		
Pass-through Awards	16.500	(4,617)
Direct Payments	16.560	3,948,712
Pass-through Awards	16.560	100,890
		<u>4,049,602</u>
Total Department of Justice		<u>4,044,985</u>
Department of Transportation:		
Pass-through Awards	20.000	(16)
Direct Payments	20.301	191,133
Direct Payments	20.701	248,749
		<u>439,866</u>
Total Department of Transportation		<u>439,866</u>
Department of the Treasury:		
Direct Payments	21.008	53,424
National Aeronautics and Space Administration (NASA):		
Direct Payments	43.000	111,055
Direct Payments	43.001	735,459
Pass-through Awards	43.001	152,530
		<u>887,989</u>
Direct Payments	43.002	966
Pass-through Awards	43.002	65,122
		<u>66,088</u>
Total NASA		<u>1,065,132</u>

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal granting agency</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
National Endowment for the Arts and Humanities:		
Direct Payments	45.149	\$ 52,657
Direct Payments	45.301	547
Direct Payments	45.312	351,758
Total National Endowment for the Arts and Humanities		<u>404,962</u>
National Science Foundation:		
Direct Payments	47.041	180,220
Direct Payments	47.049	574,627
Direct Payments	47.050	100,659
Direct Payments	47.074	175,688
Pass-through Awards	47.074	10,024
		<u>185,712</u>
Direct Payments	47.075	5,704
Pass-through Awards	47.075	756
		<u>6,460</u>
Direct Payments	47.078	233,105
Total National Science Foundation		<u>1,280,783</u>
Department of Energy:		
Direct Payments	81.000	16,466
Pass-through Awards	81.000	7,775
		<u>24,241</u>
Direct Payments	81.113	23,093
Total Department of Energy		<u>47,334</u>
Federal Emergency Management Agency:		
Pass-through Awards	83.534	84,000
Department of Education:		
Pass-through Awards	84.000	10,425
Direct Payments	84.017A	130,974
Pass-through Awards	84.027	4,434
Pass-through Awards	84.215C	(4,074)
Direct Payments	84.324D	270,068
Direct Payments	84.341A	274
Pass-through Awards	84.342	17,538
Total Department of Education		<u>429,639</u>

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal granting agency</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
Department of Health and Human Services:		
Direct Payments	93.000	\$ 1,033,133
Pass-through Awards	93.000	84,604
		<u>1,117,737</u>
Direct Payments	93.052	132,274
Direct Payments	93.173	277,782
Direct Payments	93.242	1,766,623
Direct Payments	93.278	32,849
Direct Payments	93.282	204,710
Pass-through Awards	93.282	128,939
		<u>333,649</u>
Direct Payments	93.286	307,823
Pass-through Awards	93.371	134,541
Direct Payments	93.390	98,441
Pass-through Awards	93.395	27,429
Direct Payments	93.648	313,188
Direct Payments	93.821	373,553
Direct Payments	93.847	329,649
Pass-through Awards	93.847	33,144
		<u>362,793</u>
Direct Payments	93.853	375,607
Direct Payments	93.865	268,903
Pass-through Awards	93.865	591,424
		<u>860,327</u>
Total Department of Health and Human Services		6,514,616
Corporation for National and Community Services:		
Pass-through Awards	94.004	19,782
Direct Payments	94.005	52,773
Pass-through Awards	94.005	40,404
		<u>93,177</u>
Direct Payments	94.006	207,591
Total Corporation for National and Community Services		<u>320,550</u>
Total Research and Development Cluster		<u>18,136,036</u>

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<b>Federal granting agency</b>	<b>Federal CFDA number</b>	<b>Federal expenditures</b>
Student Financial Assistance Cluster:		
Department of Education:		
Federal Supplemental Education Opportunity Grant Program	84.007	\$ 471,882
Federal Family Education Loans	84.032	41,337,816
Federal Work Study Program	84.033	506,426
Job Location and Development	84.033	45,135
		<u>551,561</u>
Federal Perkins Loan Program	84.038	8,731,669
Federal Pell Grant Program	84.063	1,549,186
Federal Direct Student Loan Program	84.268	19,285,762
		<u>71,927,876</u>
Total Department of Education – Student Financial Assistance Cluster		<u>71,927,876</u>
Total federal awards		<u>\$ 90,063,912</u>

See accompanying notes to the schedule of expenditures of federal awards.

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

**(1) Basis of Presentation**

The schedule of expenditures of federal awards (the Schedule) presents the activity of federal award programs of the University of Denver (Colorado Seminary) (the University) for the year ended June 30, 2004. Federal awards received directly from federal agencies are included in this Schedule as well as federal guaranteed loans disbursed by other sources. Additionally, all federal awards passed through from other entities have also been included on the Schedule. Although the University is required to match certain grants, as defined in the grants, no such matching is included in the Schedule.

**(2) Basis of Accounting**

The accompanying schedule is presented using the accrual basis of accounting which is described in note 1 to the University's financial statements.

**(3) Federal Direct Student Loan Program**

During the year ended June 30, 2004, the University participated in the Federal Direct Student Loan Program (FDSLP). The FDSLP allows "one-stop" student access to federal educational loan funds including the Stafford Loan Program, the Supplemental Loans for Students Program, the PLUS Loan Program, and the Consolidation Loan Program directly through schools. The University also continues to participate in the Federal Family Education Loan Program (FFELP). Such transactions are not reported in the University's statement of activities as they represent agency transactions under accounting principles generally accepted in the United States of America. During the year ended June 30, 2004, the University received approximately \$19,747,000 and disbursed \$19,502,000 of FDSLP funds and disbursed approximately \$41,300,000 in FFELP funds on a cash basis. Amounts reported on the schedule of expenditures of federal awards are reported on an accrual basis. The difference between the University's receipts and disbursements is reported as accounts receivable under operations in the statement of financial position. The University performs certain administrative functions under FDSLP which, if not performed timely, could result in a liability to the University. The University has contracted with outside servicing agencies to perform the required administration functions related to the FFELP program.

**(4) Federal Perkins Loan Program**

Student loans made through the Federal Perkins Loan Program (Perkins) constitute substantially all of the student loans outstanding at year-end. The total balance due on Perkins loans is approximately \$19,774,000 as of June 30, 2004.

Perkins stipulates that the federal government provides 75% of the total funds available with the University providing the remaining 25% for fiscal year 2004. Perkins provides for cancellation of a note at rates of 10% to 30% per year up to a maximum of 100% if the debtor complies with certain provisions of Perkins. The federal government reimburses the loan funds of the University at rates of 10% to 30% for cancelled indebtedness due to certain teaching service and various types of services for the U.S. government and 100% for loans declared not collectible due to death, permanent disability, or a declaration of bankruptcy. Due to federal regulations, no loans of Perkins have been written off since the inception of Perkins.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

**(5) Pass-Through Awards**

On the accompanying schedule, the following grants were received as pass-through awards:

<u>Grantor</u>	<u>CFDA number</u>	<u>Contract/grantor's number</u>	<u>Expenditures</u>
Colorado Department of Public Health and Environment	10.558	00013-09	\$ 5,320
Alliant Ammunition and Powder Company	12.114	P.O. AR1001	(2,124)
General Dynamics Land Systems	12.114	P.O. NPR116160	15,000
Hawthorne & York International	12.114	P.O. 1107	8,203
ITN Energy Systems	12.114	TB02-101 (PFBR2)	40,000
ITT Industries	12.114	P.O. 170811J	53,268
ITT Industries	12.114	P.O. 178220J	5,812
National Technical Systems	12.114	P.O. 87571	11,331
Separation Systems Technology, Inc.	12.114	P.O. 3212	59,724
Applied Research Associates	12.300	S-5797.1	(66)
National Technical Systems	12.300	P.O. 88114	66,200
Talley Defense Systems, Inc	12.300	P.O. 10620	71,811
Applied Research Associates	12.800	S-16085.1	57,991
Booz-Allen & Hamilton	12.800	P.O. 66806DS306	506
Directed Energy Solutions	12.800	DES-0401	17,447
Select Tech Services Corporation	12.800	P.O. 3600-02-6007	451
City and County of Denver	14.169	01-1023	13,958
City and County of Denver	14.218	# 01-612-A DATED 07/01/02	2,312
City and County of Denver	14.218	AGREEMENT DTD JUNE 13, 2001	55
City and County of Denver	14.218	CONTRACT CONTROL GE12052-2	18,681
Denver Housing Authority	14.866	CO06URD001/102	10,341
Multiple non-federal sponsors	15.617	NFWF #2001-0032-000/01-NCA-1	58
Western Assoc. of Fish & Wildlife Agencies	15.617	PRIME PROJECT #00-271	43,004
U S Geological Survey	15.808	P.O. 0-MESA-01373	2,442
G & H International Services	16.500	AGREEMENT DATED: 04/17/2001	(4,617)
APCO	16.560	SUBCONTRACT DTD 1/7/04	100,890
Colorado Department of Transportation	20.000	98HTD01037	(16)
Jet Propulsion Lab	43.001	1259923	80,678
Oceaneering Thermal Systems	43.001	P.O. 638141	21
University of Utah	43.001	2003125B	53,499
University of Utah	43.001	2003125B	18,333
Ball Aerospace	43.002	P.O. 00DB10041	1,547
Ball Aerospace	43.002	P.O. 00DKB10041	580
Futron Corporation	43.002	EN-09-00-02	(16,781)
University of Texas at Dallas	43.002	SC 01-10	79,776
University of Colorado/Boulder	47.074	SPO S4007	10,024
University of California/Irvine	47.075	# 2002-1125	756
Battelle National Labs	81.000	355138-AQ5	3,156
Los Alamos National Laboratory	81.000	01117-001-04 4X	4,619
INS, Atlanta	83.534	P.O. 857-05	84,000
University of Pennsylvania	84.000	5-36419-T	10,425
Colorado Department of Education	84.027	SPED #61-2-02	4,434
Temple University	84.215C	#30-1992-711	(4,074)
University of Colorado at Denver	84.342	SUB #0603.10.297D-03	17,538
Colorado Department of Human Services	93.000	PO IHA STFC0300066	7,560
Colorado Department of Human Services	93.000	SCIHASTFC010041A	(59)
Colorado Department of Human Services	93.000	SCIHASTFC010041A	59
Colorado Department of Human Services	93.000	SCIHASTFC010041B	4,460
Colorado Department of Human Services	93.000	SCIHASTFC020122A	3,594
Colorado Department of Human Services	93.000	SCIHASTFC020332A	3,039
Colorado Department of Human Services	93.000	SCIHASTFC971225C	227
Colorado Department of Human Services	93.000	STFC0100041	5
Colorado Department of Human Services	93.000	STFC0100041	3
Colorado Department of Public Health and Environment	93.000	ADM0300584	62,704

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

<u>Grantor</u>	<u>CFDA number</u>	<u>Contract/grantor's number</u>	<u>Expenditures</u>
Colorado Department of Public Health and Environment	93.000	ADM9808313	\$ 44
University of Colorado Health Sciences Ctr	93.000	UCHSC PROJECT #2-5-80338	893
University of Colorado Health Sciences Ctr	93.000	UCHSC PROJECT #2-5-80338	1,821
University of Colorado/Boulder	93.000	SPO#0000013527	254
City and County of Denver	93.282	GE20124	6,757
City and County of Denver	93.282	M1028PY00GYO	(141)
Colorado Department of Public Health and Environment	93.282	EPI0300120	56,538
Colorado Department of Public Health and Environment	93.282	EPI0300120	65,786
University of Chicago Medical Center	93.371	TRACS ID # 16839	95,822
University of Chicago Medical Center	93.371	U OF CHICAGO #	38,719
San Francisco State University	93.395	C7-94161 SUBCONTRACT	25,426
University of California	93.395	3545SC	1,655
University of Colorado Health Sciences Ctr	93.395	2-5-37777	348
University of California-Davis	93.847	02-01696E	15,244
University of Colorado Health Sciences Ctr	93.847	1R01 HL069071-01	15,087
University of Colorado Health Sciences Ctr	93.847	UCHSC PROJECT #2-5-60062	2,812
Eleanor Roosevelt Institute for Cancer Research, Inc.	93.865	ERI#119J10	414
Jackson Laboratory	93.865	SUBGRANT 5 P01 HD24605-15	47,668
Jackson Laboratory	93.865	SUBGRANT 5 P01 HD24605-15	79,964
Univ of California	93.865	K-006198-DU	2,119
University of Colorado Health Sciences Ctr	93.865	PRIME HD04024	217
University of Colorado Health Sciences Ctr	93.865	UCHSC PROJECT #2-5-80212	6,852
University of Colorado Health Sciences Ctr	93.865	UCHSC PROJECT #2-5-80212	120,884
University of Colorado/Boulder	93.865	UCB # 154-0405	78,583
University of Colorado/Boulder	93.865	UCB # 154-0405	40,854
University of Colorado/Boulder	93.865	UCB #154-0406	63,648
University of Colorado/Boulder	93.865	UCB #154-0406	150,222
Colorado Department of Education	94.004	AGREEMENT DTD JANUARY 2002	19,782
Bonner Foundation	94.005	LETTER DATED 11/07/02	19,995
University of Pennsylvania	94.005	SUB# 5-36419-F/PO#850526	20,408
			\$ <u>2,006,780</u>

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Findings and Questioned Costs

June 30, 2004

**(1) Summary of Auditors' Results**

- (a) The type of report issued on the financial statements: **Unqualified Opinion**
- (b) Reportable conditions in internal control disclosed by the audit of the financial statements: **None Reported** Material weaknesses: **No**
- (c) Noncompliance which is material to the financial statements: **No**
- (d) Reportable conditions in internal control over major programs: **Yes**  
Material weaknesses: **No**
- (e) The type of report issued on compliance for major programs: **Qualified Opinion**
- (f) Any audit findings which are required to be reported under Section .510(A) of OMB Circular A-133: **Yes**
- (g) Major programs: Research and Development Cluster and Student Financial Assistance Cluster (various CFDA numbers)
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,702,000**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes**

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

**None**

**(3) Findings and Questioned Costs Relating to Federal Awards**

**Finding No. 04-01**

**Federal Student Aid Cluster**

***Program Identification***

Federal Student Aid Cluster, Federal Family Education Loans (84.032)  
Federal Student Aid Cluster, Federal Pell Grant Program (84.063)  
Federal Student Aid Cluster, Perkins Loan Program (84.038)

***Criteria***

In a return of Title IV Funds calculation, the school must return the lesser of (1) the amount of Title IV Funds that the school does not earn or (2) the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned. Institutional charges are tuition and other educationally related expenses assessed by the institution. The institutional charges used in the calculation are always the charges that were initially assessed the student for the payment period or period of enrollment. The charges used in the return calculation are always the

## UNIVERSITY OF DENVER (COLORADO SEMINARY)

### Schedule of Findings and Questioned Costs

June 30, 2004

charges on the student's account prior to withdrawal. *(34 CFR 668.22(g)(1)(ii); 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds)*

A school is required to determine the withdrawal date for a student who withdraws without providing notification by thirty days after the end of the term from which the student withdrew. Further the school must return its portion of unearned Title IV funds by no later than thirty days after the date the school determined the student withdrew. *(34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds)*

Institutionally scheduled school day breaks of five or more consecutive days are excluded from the total number of calendar days in the term in Return of Title IV Funds calculations and therefore do not affect the calculation of the amount of Title IV aid earned. This provides for more equitable treatment of students who withdraw near each end of a scheduled break. All days between the last scheduled day of classes before a scheduled break and the first day classes resume are excluded from both the numerator and denominator in calculating the percentage of the term completed. *(34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds)*

If a recipient of FSA grant or loan funds withdraws from a school after beginning attendance, the amount of FSA grant or loan assistance earned by the student must be determined by calculating a Return of Title IV Funds. If the amount disbursed to the student is greater than the amount the student earned, unearned funds must be returned. The school must return the lesser of (1) the amount of Title IV funds that the student does not earn or (2) the amount of institutional charges that the student incurred for the payment period or period of enrollment multiplied by the percentage of funds that was not earned. If the school returns amount (2), then the student must return the difference between the amount of unearned Title IV funds and amount (2). *(34 CFR 668.22; 2003-2004 United States Department of Education Student Financial Aid Handbook Volume 2 Institutional Eligibility and Participation Chapter 6 – Return of Title IV Funds)*

#### **Condition**

In 10 out of 35 return of Title IV Funds calculations selected, the University did not use correct institutional charges. Parking fees were included in the calculation where the fees should be excluded. Health fees were included in some instances where the student had waived them, and in some cases the health fees were excluded where the student had not waived the fee. In three of the 35 calculations sampled, the University's calculation was incorrect based on incorrect withdrawal dates.

The University did not determine the withdrawal dates timely or have sufficient procedures for students who withdraw without providing notification.

Three of the thirty-five students selected at the University returned the unearned Title IV funds 4, 107, and 89 days late.

The University inappropriately included "Reading Days" as a scheduled break for Law Students.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Schedule of Findings and Questioned Costs

June 30, 2004

The University did not perform return of Title IV Funds calculations for two students in the sample and did not make the required returns for four students in the sample.

The University did not request the student to return the student's unearned portion of the aid that should be returned.

In the sample selected, there was no evidence that the calculations had been reviewed.

***Questioned Costs***

Under returned \$4,430.64 Subsidized Loan and \$71 Pell.

Over returned \$7,148.02 Unsubsidized Loan, \$8,437 Subsidized Loan, and \$1,334 Perkins Loan.

Under returned \$14.46 Unsubsidized Loan, \$101.75 in Subsidized Loan, and \$104.45 in Perkins. Over returned \$34 in Subsidized Loan.

\$11,169.82 Unsubsidized Loan.

\$308.21 Pell Grant

***Effect***

Using incorrect institutional charges and incorrect term end dates creates incorrect refund amounts.

When the withdrawal date for students that withdraw without providing notification is determined beyond the required timeframe allowed or not determined, the school will return the unearned funds beyond the timeframe established by federal regulations or not return funds required.

The University has returned its portion of unearned Title IV funds beyond the timeframe established by federal regulations.

The University improperly calculated the breaks in their return of Title IV funds calculations, causing incorrect amounts to be returned.

Unearned Federal aid has not been required to be returned by the student or school at this time.

***Recommendation***

The University should establish procedures to ensure that return of Title IV calculations are performed correctly with correct charges, correct period end dates, performed when required, and the resulting returns are made by both the school and the University. The University should establish procedures to ensure that the withdrawal date of students who withdraw without providing notification is determined within thirty days after the end of the term and the resulting return is made no later than thirty days after the date of this determination. The University should also establish procedures to ensure that breaks are calculated properly on the Return of Title IV funds calculations.

**UNIVERSITY OF DENVER (COLORADO SEMINARY)**

Corrective Action Plan  
Related to the OMB A-133 Audit

June 30, 2004

**No. 04-01 Student Financial Assistance Cluster**

**The finding includes miscalculation of return of Title IV funds.**

To correct the problems regarding the University's return of Title IV funds the financial aid staff participated in training conducted by the Department of Education in May 2004. Staff continues to receive on-going training in this area. Policies and procedures have been issued to address performing calculations, withdrawal dates, and breaks to ensure compliance for return of Title IV funds. Review procedures implemented in May 2004 require a 100% review of all calculations.